



HAWAII STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

ADMINISTRATIVE APPLICATION – CERTIFICATE OF NEED PROGRAM

Application Number 05-28A

Applicant: Castle Medical Center
640 Ulukahiki Street
Kailua, HI
Phone: (808)263-5142

Project Title: Closure of its progressive care unit and Bed changes: + 7
Medical/Surgical; +3 Obstetric; and -10 Skilled Nursing Facility beds

Project Address: same

1. **TYPE OF ORGANIZATION:** (Please check all applicable)

| | |
|-------------------------------------|--------------|
| Public | _____ |
| Private | <u> X </u> |
| Non-profit | <u> X </u> |
| For-profit | _____ |
| Individual | _____ |
| Corporation | <u> X </u> |
| Partnership | _____ |
| Limited Liability Corporation (LLC) | _____ |
| Limited Liability Partnership (LLP) | _____ |
| Other: _____ | _____ |

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2. **PROJECT LOCATION INFORMATION**

A. Primary Service Area(s) of Project: (please check all applicable)

| | |
|-----------------|--------------|
| Statewide: | _____ |
| O`ahu-wide: | <u> X </u> |
| Honolulu: | _____ |
| Windward O`ahu: | <u> X </u> |
| West O`ahu: | _____ |
| Maui County: | _____ |
| Kaua`i County: | _____ |
| Hawai`i County: | _____ |

3. **DOCUMENTATION** (Please attach the following to your application form):

A. Site Control documentation (e.g. lease/purchase agreement, DROA agreement, letter of intent)

The designated area is located on the Castle Medical Center campus and is owned by Castle Medical Center. There is no site control documentation.

B. A listing of all other permits or approvals from other government bodies (federal, state, county) that will be required before this proposal can be implemented (such as building permit, land use permit, etc.)

No other permits are required for this project. The hospital is currently licensed for 147 acute care and 10 Skilled Nursing Facility ("SNF") beds. Because of the construction currently in progress, only 137 acute care beds will be in use after closure of the SNF. Accordingly, no further licensure from the DOH is needed until completion of construction when a total of 160 beds will be put into use. The Office of Health Care Assurance does not issue licenses for closure of SNF beds. Gerald Chung of that office has advised that Castle should notify him in writing of the closure and its effective date and include a copy of the CON approval from SHPDA with that notice.

C. Your governing body: list by names, titles and address/phone numbers

Year 2005 list included in Attachment 1.

D. If you have filed a Certificate of Need Application this current calendar year, you may skip the four items listed below. All others, please provide the following:

- Articles of Incorporation
- By-Laws
- Partnership Agreements
- Tax Key Number (project's location)

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Documents on file and unchanged since 2/5/2005 application approval (CON # 05 - 04).

4. **TYPE OF PROJECT.** This section helps our reviewers understand what type of project you are proposing. Please place an "x" in the appropriate box.

| | Used Medical Equipment (over \$400,000) | New/Upgraded Medical Equip. (over \$1 million) | Other Capital Project (over \$4 million) | Change in Service | Change in Beds |
|---------------------|--|---|---|-------------------|----------------|
| Inpatient Facility | | | | | X |
| Outpatient Facility | | | | | |
| Private Practice | | | | | |

5. **BED CHANGES.** Please complete this chart only if your project deals with a change in your bed count and/or licensed types. Again, this chart is intended to help our reviewers understand at a glance what your project would like to accomplish. Under the heading "Type of Bed," please use only the categories listed in the certificate of need rules.

| Type of Bed | Current Bed Total | Proposed Beds for your Project | Total Combined Beds if your Project is Approved |
|--------------------|-------------------|--------------------------------|---|
| Obstetrics | 9 | 3 | 12 RECEIVED 06 JAN -5 P2:4 |
| Critical Care | 8 | 0 | 8 |
| Medical / Surgical | 104 | 7 | 111 |
| Psychiatric | 29 | 0 | 29 |
| Skilled Nursing | 10 | -10 | 0 |
| TOTAL | 160 | 0 | 160 |

6. PROJECT COSTS AND SOURCES OF FUNDS

A. List All Project Costs:

AMOUNT:

Castle does not anticipate any additional capital costs for this project other than the capital costs previously approved in Certificate of Need 03-34A.

- 1. Land Acquisition _____
- 2. Construction Contract _____
- 3. Fixed Equipment _____
- 4. Movable Equipment _____
- 5. Financing Costs _____
- 6. Fair Market Value of assets acquired by lease, rent, donation, etc. _____
- 7. Other: _____

TOTAL PROJECT COST: \$0

B. Source of Funds

Castle does not anticipate any need for funding.

- 1. Cash _____
- 2. State Appropriations _____
- 3. Other Grants _____
- 4. Fund Drive _____
- 5. Debt _____
- 6. Other: _____

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TOTAL SOURCE OF FUNDS: \$0

7. **CHANGE OF SERVICE:** If you are proposing a change in service, then please briefly list what services will be added/modified. Be sure to include the establishment of a new service or the addition of a new location of an existing service. Please reference the Certificate of Need Rules Section 11-186-5 for the categories of services. If you are unable to determine which category best describes your project, please consult with agency staff.

8. **IMPLEMENTATION SCHEDULE:** Please present a projected time schedule for the completion of this project from start to finish. Include all of the following items that are applicable to your project:

- a) Date of site control for the proposed project
The site exists on the campus of Castle Medical Center.
- b) Dates by which other government approvals/permits will be applied for and received
October 2005 – complete and submit CON application
- c) Dates by which financing is assured for the project,
Same as in CON 03-34A
- d) Date construction will commence,
Same as in CON 03-34A

- e) Length of construction period,

Same as in CON 03-34A

- f) Date of completion of the project,

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Castle anticipates closure of the existing 10 SNF beds and their conversion to medical/surgical and obstetrics beds by no later than June 30, 2006.

- g) Date of commencement of operation

Castle anticipates closure of the existing 10 SNF beds and their conversion to medical/surgical and obstetrics beds by no later than June 30, 2006.

Please remember that the Agency does monitor the implementation of Certificates approved. Non-implementation of a project as described in your application may result in a fine and/or withdrawal of the certificate of need.

9. **EXECUTIVE SUMMARY:** Please present a brief summary of your project. In addition, provide a description of how your project meets each of the certificate of need criteria listed below. If a new location is proposed, please attach an easy to read map that shows your project site.

- a) Relationship to the Hawai'i Health Performance Plan (H2P2), also known as the State of Hawai'i Health Services and Facilities Plan.
- b) Need and Accessibility
- c) Quality of Service/Care
- d) Cost and Finances (include revenue/cost projections for the first and third year of operation)
- e) Relationship to the existing health care system
- f) Availability of Resources.

Project Description:

Castle Medical Center ("Castle") obtained a Certificate of Need (No. 03-34A) on December 17, 2003, which allowed Castle to renovate and expand its hospital facility and, in connection therewith, to make certain bed changes as more particularly described in CON No. 03-34A. Castle now seeks approval to delete the Progressive Care Unit, which is comprised of 10 skilled nursing facility ("SNF") beds, on its medical campus in Kailua. The bed closure is necessary to allow Castle to proceed with the revised Phase III of the renovation project. Castle's total bed count will remain at 160. Three of the current SNF beds will be converted to obstetrics service, increasing Castle's total number of obstetrical beds to 12. The remaining seven SNF beds will be converted to medical/surgical beds, increasing Castle's total medical/surgical bed count to 111.

The general purpose of the renovation is to enhance Castle's effectiveness as a health care provider through increasing space for patients and modernizing current facilities. Additionally, Castle seeks to bring its facilities into full compliance with building codes and standards of the Joint Commission on Accreditation of Healthcare Organizations ("JCAHO"). However, the renovation currently underway fits within the same building footprint, and no additional internal space is being created. Currently, the Hawaii Administrative Rules (HAR) require that, in both hospitals and SNFs, single patient rooms shall have 100 square feet of usable space excluding closets, bathrooms, alcoves and entryways, and rooms for more than one patient shall measure 80 square feet per bed, excluding closets, bathrooms, alcoves and entryways. See HAR §§ 11-93-6(d)(4) and (5) and 11-94-8(d)(4) and (5). One purpose of the remodeling was to bring patient rooms at Castle up to these standards.

Additionally, the HAR standards for SNFs require that 50 square feet per bed for seventy-five percent of total bed capacity be provided for dining and recreation purposes. HAR § 11-94-8(a)(3). In the event that adult nonresidents use the dining/recreational space for more than 20 hours per week, SNFs must provide an extra 20 square feet of dining area per person and an additional 30 square feet of recreational space per person. HAR § 11-94-8-(a)(3)(D)(i) and (ii). Moreover, until the past year, Castle had stored clean linens for and soiled linens from the SNF in the same area that similar linens were stored for hospital operations. During a recent inspection, the Department of Health informed Castle that the practice was a violation of HAR § 11-94-23(e), and that separate clean/soiled lined areas must be maintained for SNF and hospital patients. A copy of the DOH Inspection Report is included as Attachment 2.

The SNF consists of five two-bed rooms, hence they must be enlarged to provide a minimum of 160 square feet in each room. Also a minimum of 375 square feet must be available for dining and recreation, plus additional space, as described above, if non-residents are permitted to use the area. The renovation plan relocated the SNF to the far north end of the facility over the Emergency Room. However, the space allocated for the SNF in the renovated facility was configured in the same manner as the old SNF area. It did not have a separate utility area. It is not possible to put a new utility area into the space allocated for the SNF and still meet the minimum square footage requirements for patient rooms and dining/recreational areas. The requirement that further recreational/dining space be allocated in order to permit the area to be used by non-residents complicates the space allocation problem even more. Creation of space dedicated for these purposes solely for the use of the 10 SNF beds that comprise the SNF would reduce the space available for medical/surgical patient care and negatively impact efficient use of space, work flow and staff for both categories of care.

Castle believes that accommodating Windward Oahu's need for increased acute care services must be given priority over maintenance of the SNF beds because Castle is the only facility providing acute care services to Windward Oahu. The primary purpose of the renovation project is to address the lack of space and medical/surgical beds that have made it difficult, at times, to provide acute care to Castle's primary service area. When Castle lacks capacity to serve its community's acute care needs, patients must travel a significant distance to Honolulu to receive medical treatment. More than an inconvenience, increased travel time and limited access that results from traffic congestion can result in unnecessary risks to the safety and health of patients residing in Windward Oahu. For this reason, it is important that Castle give first priority to maintaining its ability to serve the acute care needs of all Windward patients. For patients who are unable to travel into Honolulu, whether because it is inconvenient or because they lack transportation, Castle is the only choice.

In contrast, skilled nursing care, which is available from several other facilities on Oahu, is typically part of a planned transition from acute care to lower acuity residential care, either in the patient's home or an intermediate care facility ("ICF"). Transportation to alternative sites for skilled nursing care is not time sensitive and, because the needs of patients in need of skilled nursing care after a hospital stay have been fully assessed, may be scheduled and monitored so as to insure patient safety in ways that are unavailable when acute care patients are transported.

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A) Relationship to the Hawai'i Health Performance Plan (H2P2), also known as the State of Hawai'i Health Services and Facilities Plan.

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The proposed deletion of SNF beds supports H2P2's goal of achieving "equitable and effective access at reasonable cost for all Hawai'i's residents," because it will increase accessibility to acute care services for those in Windward Oahu who must look to Castle for such care, while having limited impact upon access to SNF services, which are available from a variety of other sources. The objective of "reducing morbidity and pain through timely and appropriate treatment" will also be supported by the proposed closure, because it is necessary in order to allow Castle to continue to upgrade its medical/surgical facilities and to adjust its current acute care bed capacity to adapt to meet Windward Oahu's increasing demand for such services. In addition, this proposal will help Castle meet H2P2's goal of establishing regionalized health care delivery systems that include community input, are cost-effective, and foster improved access to quality health care services.

By allowing Castle to more narrowly focus its resources on the provision of acute care services, this proposal serves to reduce morbidity and pain through timely and appropriate treatment. H2P2's regional priorities for Windward Oahu include treatment of "heart conditions" and "malignant neoplasms." The renovation project was intended to support these priorities by enhancing Castle's current acute care delivery system by increasing the number of medical/surgical beds available and by providing acute care patients with more room and more modern facilities. The proposed renovation and bed changes facilitate timely and appropriate treatment, by increasing capacity and enabling a greater portion of the community to be served. Ultimately, the additional space will allow physicians to provide preventive health care diagnosis or care especially for heart disease and malignant neoplasm, which are two of the top six health risks prevalent in the Windward area population. Castle's ability to meet these goals will be compromised if it attempts simultaneously to comply with the dedicated space requirements necessary for maintaining its 10 SNF beds.

In the past, Castle has experienced episodic shortages of medical/surgical beds during peak admission periods even though its occupancy rates, when averaged over an entire year, are slightly lower than the H2P2's 80% threshold levels for introduction of new beds. Consequently, Castle has, at times, been forced to keep newly admitted patients in the emergency room for prolonged periods while awaiting availability of a medical/surgical bed. The resulting delay in moving patients out of the emergency room has negatively impacted provision of emergency room services. Moreover, while Castle's occupancy rates are below the H2P2 thresholds, its occupancy rates of 78% for medical surgical beds, 79% for surgical beds, and 88% for telemetry beds are all above the nationally recognized industry standard of 70%.

B) Need and Accessibility

The service area of the proposed project will be the island of Oahu and, specifically, Windward Oahu. In 2002, the population of Oahu was 896,019. Between 1990 and 2000, the

population of Oahu grew from 836,231 to 876,156. (See Hawaii Data Book Table 1.06, Resident Population by Counties: 1980 to 2002.) By the year 2010, the population of Oahu is expected to 929,200. (See Hawaii Data Book, Table 1.24 – Resident Population Projections by Counties: 1998 to 2025.) The proposed bed changes will allow Castle to better accommodate the acute care needs of this increase in population.

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In 2002, Castle had a medical / surgical bed utilization rate of 78.89%. After St. Francis – West Hospital, this was the highest utilization rate on Oahu. A frequently-accepted benchmark in the hospital industry is that an acute care hospital should plan for no more than an 85% average occupancy rate. Beyond that, the hospital is unable to provide enough beds to meet the fluctuations of peak demands, such as seasonal increases or outbreaks of infectious diseases. During 2002, Castle's emergency rooms bays were sometimes occupied by patients waiting for medical/surgical bed services. During times of high occupancy, patients requiring medical/surgical care were sometimes placed in beds intended for obstetrics or psychiatric patients. The proposed closure of the SNF beds will allow Castle to fully commit its resources to development of additional acute care capacity needed to meet peak demand, and will help to avoid retention of medical/surgical patients in the Emergency Room that can impede provision of timely and appropriate emergency treatment.

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NEW YORK, NY

On the other hand, SNF services are available at five other Oahu hospitals and several SNF/ICF sites as well. Four of the five hospital-based SNF units are significantly larger than Castle's, ranging in size from 28 to 52 beds. Overall occupancy at the six hospital-based SNFs – including Castle – was reported at 78.68% in SHPDA's Health Care Utilization Report – 2003 Data ("SHPDA 2003"). Because demand for SNF beds is not subject to the wide fluctuations that characterize demand for acute care beds, alternative SNF facilities can be expected to absorb Castle's average daily SNF census of 8.4 patients without difficulty.

Castle currently provides and will continue to provide services for all residents of the area, and in particular low-income persons, racial and ethnic minorities, women, handicapped persons, and the elderly.

C) Quality of Service/Care

The closure of Castle's SNF beds will not have any adverse impact on its current SNF patients. The average length of stay in the SNF is 16.8 days. It is anticipated that most, if not all, of Castle's SNF beds can be phased out simply by curtailing admissions to the SNF and placing Castle patients who are ready for less acute care in alternative SNF facilities. Should it become necessary, Castle will arrange for transfer of SNF patients to appropriate placements at other facilities.

The closure of the SNF beds will allow Castle to continue to provide Windward Oahu residents with quality health care as it has done since 1963. It is a full-service medical center, offering a wide range of inpatient, outpatient and home-based services. Each year, Castle provides care for 6,000 inpatients, 42,000 outpatients and 16,000 emergency patients. While Castle serves all of Oahu, it is the primary health care facility for Windward Oahu.

Castle will comply with State and Federal regulations for delivery of care, maintenance of service equipment, and maintenance of clinical environment. Castle is accredited by JCAHO, licensed by the State of Hawaii Department of Health, and is in good standing with the Medicaid and Medicare healthcare programs.

Castle provides patient care through well-defined processes for caregivers. Castle conducts regular performance reviews of employees which, among other things, are used to identify strengths, identify areas for improvement, document professional performance, and gather data as a guide for such actions as wage increases, promotions, disciplinary action and reassignment. The performance review "rates" employees on the basis of their performance and length of time in the position in relation to the performance requirements of that position.

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Maintaining Castle's quality of service for medical/surgical patients requires the availability of medical/surgical beds and modernization and expansion of acute care areas. Without sufficient medical/surgical beds, acute patients are backed up in the Emergency Room, patients receive care in inappropriate bed settings, emergency patients have delays in receiving emergency care, and elective procedures have to be re-scheduled or are delayed. Closure of the relatively small number of SNF beds at Castle will permit Castle to concentrate its resources on much needed acute care services.

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D) Cost and Finances (include revenue/cost projections for the first and third year of operation)

Closure of the SNF beds will not require Castle to incur any capital expenditures. Revenue and cost projections for the first and third year of operation of the converted beds are summarized in the table below.

Projected Revenues and Operating Costs

| | Year 1 | Year 3 |
|------------------------|--------------------|--------------------|
| Revenues | | |
| 7 Med/Surg Beds | \$5,548,456 | \$6,407,086 |
| 3 OB Beds | \$2,807,672 | \$3,240,825 |
| Total | \$8,356,128 | \$9,647,911 |
| Deductions | | |
| 7 Med/Surg Beds | \$3,414,824 | \$3,868,520 |
| 3 OB Beds | \$1,508,092 | \$1,707,753 |
| Total | \$4,922,916 | \$5,576,273 |
| Net Revenues | \$3,433,212 | \$4,071,638 |
| Operating Costs | | |
| 7 Med/Surg Beds | \$1,991,840 | \$2,256,477 |
| 3 OB Beds | \$1,484,200 | \$1,680,698 |
| Total | \$3,476,040 | \$3,937,175 |
| Net Income | \$ (42,828) | \$ 134,463 |

E) Relationship to the existing health care system

The project is necessary to meet the acute care needs of the patient population and communities that are served by Castle. Castle is the anchor health care facility for the Windward communities. The project will have no significant impact access to SNF beds on Oahu because both Castle's total number of SNF beds (10) and the average daily SNF census

(8.4) are relatively low and can be easily absorbed into existing capacity at other facilities offering SNF services. Accordingly, there is no reason to believe that closure of the Castle SNF beds will adversely impact other health care providers on Oahu.

F) Availability of Resources

Closure of the SNF beds will not require expenditure of financial or human resources. Castle does not anticipate a need for additional staffing after conversion of the 10 SNF beds to 7 medical/surgical and 3 obstetrics beds, because they can be worked into existing nursing units without any significant impact on the current staff to patient ratio.

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ST. HEALTH PLAN
TO FILE FOR

10. **Eligibility to file for Administrative Review.** This project is eligible to file for Administrative review because: (Check all applicable)

- It involves bed changes, which will have a capital expense of \$1,000,000 or less, and which will have an increased annual operating expense of less than \$500,000.
- It involves service changes which will have a capital expense of \$1,000,000 or less, and which will have an increased annual operating expense of less than \$500,000.
- It is an acquisition of a health care facility or service, which will result in lower annual operating expenses for that facility, or service.
- It is a change of ownership, where the change is from one entity to another substantially related entity.
- It is an additional location of an existing service or facility.
- The applicant believes it will not have a significant impact on the health care system.